

CITY OF KELSO
Cowlitz County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. The City Should Improve Its Accounting For Fixed Assets

The city does not adequately account for all of its fixed assets. Specifically, it has not:

- a. Established or maintained subsidiary ledgers for fixed assets.
- b. Performed a comprehensive physical inventory of fixed assets.

The city also does not account for real and personal property purchased with grant funds in accordance with federal requirements. Improved accounting procedures for fixed assets would:

- a. Provide accountability for city assets.
- b. Enable the city to meet grant accounting requirements for assets purchased with federal funds.
- c. Provide better audit trails, thereby improving internal controls over fixed assets and reducing audit costs.

The city's failure to account for real and personal property in a manner which identifies assets donated by the federal government or purchased with federal grant funds violates the "Common Rule" for *Uniform Administration Requirements for Grants and Cooperative Agreements*, Section .32, which states in part:

. . . (d) Management Requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property . . . identification number . . . the source of the property, who holds title . . . acquisition date . . . cost . . . location, use and condition of the property . . .

(2) A physical inventory of the property must be taken and the results reconciled with the property records every two years.

The city did not use its federal financial assistance to purchase any equipment during this audit period. However, this requirement does apply to equipment previously purchased with federal funds.

These weaknesses in accounting for the city's fixed assets contributed to the qualified

financial opinion discussed in our Independent Auditor's Report On Financial Statements And Additional Information, and exposes the city to the possibility of errors and irregularities which might otherwise not be discovered in a timely manner.

We have reported these discrepancies in each annual audit report since 1987. However, the city has not yet made fixed asset accountability a high priority for management action.

We again recommend the city improve its fixed asset accounting system by:

- a. Establishing and maintaining subsidiary ledgers for fixed assets.
- b. Recording all changes in fixed assets in a timely manner.
- c. Reconciling subsidiary ledgers with the general ledger control account.
- d. Performing a comprehensive physical inventory of fixed assets.
- e. Resolving any differences in fixed assets between the physical inventory, the account subsidiary ledgers, and the general ledger control account.

2. The City Should Improve Internal Controls Over Materials And Supplies Inventory

The city did not adequately control materials and supplies inventories in both the Water/Sewer Fund and the Equipment Rental Fund. Specifically, the city:

- a. Had no system for monitoring the receipt and disbursement of materials and supplies during the year.
- b. Valued items listed on the year-end physical inventory at replacement cost.
- c. Inappropriately included some fixed assets in the Equipment Rental Fund materials and supplies inventory.

These weaknesses expose the city to the possibility of errors and irregularities which might otherwise not be detected in a timely manner. In addition, the city needs accurate costs for materials and supplies in inventory to correctly charge the user for items consumed in operations.

We have reported these deficiencies in each annual audit report since 1985. However, the city has not yet made inventory control for materials and supplies a high priority for management action.

We recommend the city:

- a. Establish a system to monitor inventories of materials and supplies.
- b. Value materials and supplies inventories at cost.
- c. Exclude fixed assets from all materials and supplies inventories.